

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 91-164-W/S - ORDER NO. 94-372 ✓
APRIL 29, 1994

IN RE: Application of Hilton Head Plantation)	ORDER
Utilities, Inc. for Approval of)	APPROVING
Increased Rates and Charges for Water)	RATES AND
and Sewer Services Provided to Customers)	CHARGES
in its Service Area.)	

This matter comes before the Public Service Commission of South Carolina (the Commission) upon remand by the Supreme Court of South Carolina pursuant to its decision in Hilton Head Plantation Utilities, Inc. v. Public Service Commission of South Carolina, Op. No. 24010 (S.C. Sup. Ct., filed February 7, 1994). The matter was remanded for the purpose of affording Applicant Hilton Head Plantation Utilities, Inc. (Hilton Head or the Company) the opportunity to justify expenditures made to affiliated companies and for the Commission to set forth an allowable operating margin as required by S.C. Code Ann. §58-5-240(H) (Supp. 1993).

A hearing was held on March 21, 1994, at 11:00 a.m. in the Hearing Room of the Commission at 111 Doctors Circle, Columbia, South Carolina. The panel of three Commissioners designated to hear and rule on the matter was comprised of Chairman Henry G. Yonce, Burnet R. Maybank, III, and Warren D. Arthur, IV. Chairman

Yonce presided. Mitchell M. Willoughby, Esquire, represented the Company, and F. David Butler, General Counsel, represented the Commission Staff.

At the hearing on remand, the Company presented the testimony of Michael J. Lubarsky, Certified Public Accountant, of Melrose Management Company, Inc., and C. Thomas DeWitt, Certified Public Accountant, of Robinson Grant & Co., P.A., a Hilton Head Island accounting firm. Mr. Newell Bolton and Mr. Tom Ulman also testified on behalf of Protestant Hilton Head Plantation Property Owner's Association.

Based upon the Application, the testimony and exhibits received into evidence at the hearings in this matter, and the entire record of these proceedings, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Hilton Head is a South Carolina corporation which provides water and wastewater service to approximately 3,000 residential and commercial customers in Beaufort County, South Carolina.

2. The Company's present rates and charges were approved by Order No. 87-720, dated July 10, 1987, in Docket No. 86-124-W/S.

3. That the appropriate test period for the purpose of this proceeding is the twelve-month period ending October 30, 1990.

4. That the appropriate operating revenues for the Company for the test year under the present rates, after accounting and pro forma adjustments, are \$1,484,322.

5. That the appropriate operating revenues under the approved rates are \$1,751,697, reflecting an authorized increase in operating revenues of \$275,000.

6. That the appropriate operating expenses for the Company for the test year under the approved rates, after accounting and pro forma adjustments, are \$1,431,802.

7. That the Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 34% federal tax rate and a 5% state tax rate.

8. That the appropriate net income for return under the rates approved, after all accounting and pro forma adjustments, is \$333,491.

9. That the Commission will use the operating margin as a guide in fixing just and reasonable rates.

10. That a fair operating margin that the Company should have the opportunity to earn is 19.04%, which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

11. That the rate designs and rate schedules approved by the Commission are appropriate and should be adopted.

12. That the rates and charges depicted in Appendix A, attached hereto and incorporated herein by reference, are approved and effective for service rendered on and after the date of this Order.

EVIDENCE AND CONCLUSIONS

Evidence and Conclusions for Findings of Fact Nos. 1 and 2

The evidence supporting these findings is contained in the Company's Application, Petition, and in prior Commission orders in the docket files of which the Commission takes notice.

Evidence and Conclusions of Finding of Fact No. 3

The evidence for this finding is contained in the Application of the Company and the testimony of Company witness Lubarsky. On August 8, 1991, the Company filed an Application, which was amended on August 14, 1991, requesting approval of increased rates and charges. The Company's filing was based on a test period consisting of the twelve months ending October 30, 1990. The Commission Staff likewise offered evidence using the same test period. The Commission finds the twelve months ending October 30, 1990, to be the reasonable period for which to make its ratemaking determinations herein.

Evidence and Conclusions for Findings of Fact Nos. 4 and 5

The evidence for the findings concerning the adjusted level of operating revenues is found in the testimony and exhibits of Company witness Lubarsky and Commission Staff witness Creech. The Company's and the Staff's calculation of operating revenues and present rates was essentially the same. Therefore, for purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates, after accounting and pro forma adjustments, are \$1,484,322. Using the Commission's Finding of Fact No. 10 and the corresponding Evidence

and Conclusions approved a 19.04% operating margin, the Company's operating revenues after the approved increase are \$1,751,697.

Evidence and Conclusions for Findings of Fact Nos. 6 and 7

Certain adjustments affecting expenses were included in the exhibits and testimony offered by witness Lubarsky for the Company and witnesses Maready and Creech for the Commission Staff. At the hearing on remand, the Company presented evidence regarding the reasonableness of expenses incurred by Hilton Head with affiliated companies. Specifically, these expenses were \$144,000 for the lease of land used as spray field sites; \$90,756 for effluent disposal rights; \$99,000 for accounting and data processing services; and \$20,000 for management expenses. The Commission believes that one-half of these expenses was justified. Accordingly, for purposes of this proceeding, one-half of the affiliated expenses is allowed, or a total of \$176,878.

Evidence and Conclusions for Finding of Fact No. 8

Based on the Commission's determinations concerning the accounting and pro forma adjustments to the Company's revenues and expenses, and its determination as to the appropriate level of revenues and expenses, net income for return after the rate increase is found by the Commission to be \$333,491.

Evidence and Conclusions for Findings of Fact Nos. 9 and 10

In this proceeding, the Commission will use the operating margin as a guide in fixing just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission,

280 S.C. 288, 312 S.E.2d 257 (1984).

The Commission has considered the spectrum of relevant factors in this proceeding, including the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of the service, and the effect of the proposed rates upon the consumer. In balancing the interests of the Company with the competing interests of the ratepayers, the Commission has determined that the schedule of rates and charges proposed by the Company is unjust and unreasonable. In light of the factors previously mentioned and based upon the record in this proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 19.04%, which requires annual operating revenues of \$1,751,697.

Evidence and Conclusions for Findings of Fact Nos. 11 and 12

The evidence before the Commission reflects that the Company's need for additional revenues is primarily associated with its sewer operations. Accordingly, usage or consumption rates and charges for water service shall remain at their currently approved levels. To achieve the approved operating margin and level of revenues, the Commission hereby approves an increase in sewer rates for residential customers from \$15.00 per month to \$23.20 per month per single family equivalent. For commercial customers, the Commission hereby approves a rate of \$23.20 per month per single family equivalent for commercial customers whose equivalency rating is less than or equal to 2.0, and, for commercial customers whose equivalency rating is greater

than 2.0, a rate of \$23.20 per month for the first 5,000 gallons of water usage (using water meter readings) and \$1.00 per 1,000 gallons for all water used over 5,000 gallons.

The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interests of the Company and its customers. This results in a reasonable attainment of our ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

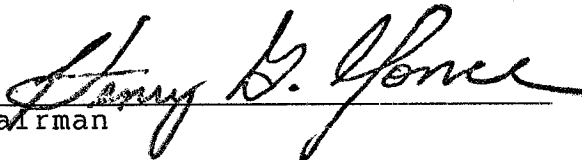
1. That the proposed schedule of rates and charges by the Company is found to be unreasonable and is hereby denied.

2. That the schedule of rates and charges attached hereto as Appendix A be, and hereby are, approved for service rendered on or after the date of this Order, and the schedules be and are hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.

3. That should such schedule not be placed in effect until three (3) months from the effective date of this Order, such schedule as contained herein shall not be charged without written permission from the Commission.

4. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:



Executive Director

(SEAL)

DISSENT OF WARREN D. ARTHUR, IV.:

I would have reconsidered my earlier Commission vote on this Docket. I believe that a fair operating margin that the Company should have the opportunity to earn is 16.34%, which would allow an authorized increase in operating revenues of \$176,878. I believe that an authorized increase in operating revenues of \$176,878 is justified, in that this amount is equivalent to one-half of the questionable expenses shown by the Company in this Docket. The Company made some effort to show that it appropriately conducted itself with regard to certain affiliated transactions and certain other effluent disposal expenses, but I was not convinced that it was entitled to earn the full amount of expenses, nor recover an amount in revenues greater than one-half the expense amount. One-half of these expenses amounted to \$176,878. I believe an authorized increase in operating revenues equivalent to this amount

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was more appropriate than the \$275,000 granted by the majority of this panel. I believe that the Company simply did not prove its entitlement to the additional operating revenues.

APPENDIX A

HILTON HEAD PLANTATION UTILITIES, INC.
P.O. BOX 21307
HILTON HEAD, SC 29925-1307
(803) 681-6173

FILED PURSUANT TO DOCKET NO. 91-164-W/S - ORDER NO. 94-372
EFFECTIVE DATE: APRIL 29, 1994

SCHEDULE OF RATES AND CHARGES

I. WATER

1. MONTHLY CHARGES

- a. Residential - Minimum charge for first 4,000 gallons per month

<u>METER SIZE</u>	<u>MONTHLY MINIMUM</u>
5/8"	\$ 9.00
3/4"	\$10.50
1 "	\$13.00
1 1/2"	\$16.00
2 "	\$32.00 or \$ 9.00 x no. of units, whichever is greater

- b. Commercial - Minimum charge for first 4,000 gallons per month.

<u>METER SIZE</u>	<u>MONTHLY MINIMUM</u>
5/8"	\$15.00
3/4"	\$17.50
1 "	\$20.00
1 1/2"	\$25.00
2 "	\$50.00 or \$16.00 x no. of units, whichever is greater
Next 12,000 gals.	\$.75 per 1,000 gals.
All over 16,000 gals.	\$ 1.25 per 1,000 gals.

Note:

- (1) Where single water meter serves more than one customer rate is multiplied by number of units.
- (2) If Utility elects to bill for longer service periods than one month, rates are multiplied by the number of months served.

2. TAP FEES

<u>METER SIZE</u>	<u>TAP FEE</u>
5/8"	\$600.00
3/4"	\$600.00
1 "	\$700.00
1 1/2"	\$750.00
2 " or greater	Cost to be determined

3. RECONNECTION FEES

At Owner's Request	\$ 25.00
For Nonpayment of User Fees	\$ 45.00

II. SEWER RATE SCHEDULE

1. MONTHLY CHARGES

a. Residential - Monthly charge per
single-family house, condominium,
villa or apartment unit \$23.20

b. Commercial - Commercial customers
whose equivalency rating is less
than or equal to 2.0 - Monthly charge
per single-family equivalent \$23.20

Commercial customers whose
equivalency rating is greater than 2.0

- Monthly charge for first
5,000 gals. \$23.20

PLUS

- Charges for all water used
over 5,000 gals. \$ 1.00 per 1,000 gals.

Note:

- (1) Where single water meter serves more than one customer rate is multiplied by number of units.
- (2) If Utility elects to bill for longer service periods than one month, rates are multiplied by the number of months served.

- c. Equivalency Rating. The monthly charges listed above are minimum charges and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly charges may be calculated by multiplying the equivalency rating by the monthly charge of \$23.20
- d. Definition of Commercial Customers. Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.
- e. Contract Rates. Where the Commission has approved a contract for sewer service which sets forth therein rates different from those set forth above, the contract rates will apply to the contracting party.

2. TAP FEES

Residential Per Single Family Equivalent	\$500.00
Commercial Per Single Family Equivalent	\$600.00

3. RECONNECTION FEES

At Owner's Request	\$ 25.00
For Nonpayment of User Fees	\$ 45.00

4. EQUIVALENCY RATING FOR SEWER CUSTOMERS

The list set forth below establishes the minimum equivalency ratings for commercial customers applying for or receiving sewer service from the Utility.

Where the Utility has reason to suspect that a person or entity is exceeding design loadings established by the South Carolina Department of Health and Environmental Control in a publication called "Guidelines for Unit Contributory Loadings to Wastewater Treatment Facilities" (1990), as may be amended from time to time or as may be set forth in any successor publication, the Utility shall have the right to request and receive water usage records from the provider of water to such person or entity. Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Utility may recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated equivalency rating.

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TYPE OF ESTABLISHMENT	EQUIVALENCY RATING
1. Airport	
(Per Employee).....	.025
(Per Passenger).....	.0125
2. Apartments.....	1.0
3. Assembly Halls	
(Per Seat).....	.0125
4. Barber Shop	
(Per Employee).....	.025
(Per Chair).....	.25
5. Bars, Taverns	
(Per Employee).....	.025
(Per Seat, Excluding Restaurant).....	.1
6. Beauty Shop	
(Per Employee).....	.025
(Per Chair).....	.25
7. Boarding House	
(Per Resident).....	.125
8. Bowling Alley	
(Per Employee).....	.025
(Per Lane, No Restaurant, Bar, Lounge).....	.3125
9. Camps	
Resort, Luxury (Per Person).....	.25
Summer (Per Person).....	.125
Day (With Central Bathhouse) (Per Person).....	.0875
Travel Trailer Per Site.....	.4375
10. Car Wash	
(Per Car Washed).....	.1875
11. Churches	
(Per Seat).....	.0075
12. Clinics, Doctors Office	
(Per Employee).....	.0375
(Per Patient).....	.0125

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TYPE OF ESTABLISHMENT	EQUIVALENCY RATING
13. Country Club, Fitness Center, Spa (Per Member).....	.125
14. Dentist Offices (Per Employee)..... (Per Chair).....	.0375 1.125
15. Factories, Industries (Per Employee)..... (Per Employee, With Showers)..... (Per Employee, With Kitchen Facilities)..... (Per Employee, With Showers, Kitchen Facilities)...	.0625 .0875 .1 .1125
16. Fairgrounds (Per Person Based on Average Attendance).....	.0125
17. Grocery Stores Per 100 sq. ft. space, No Restaurant).....	.5
18. Hospitals (Per Bed)..... (Per Resident Staff).....	.5 .25
19. Hotels (Per Bedroom - No Restaurant).....	.25
20. Institutions (Per Resident).....	.25
21. Laundries (Self Service) (Per Machine).....	1.0
22. Marinas (Per Slip).....	.075
23. Mobile Homes.....	1.0
24. Motels (Per Unit - No Restaurant).....	.25
25. Nursing Homes (Per Bed)..... (Per Bed, With Laundry).....	.25 .375
26. Offices, Small Stores, Business, Administration Bldg..... (Per Person - No Restaurant).....	.0625

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TYPE OF ESTABLISHMENT	EQUIVALENCY RATING
27. Picnic Parks Average Attendance (Per Person).....	.025
28. Prison/Jail (Per Employee)..... (Per Inmate).....	.0375 .3125
29. Residences (Single Family).....	1.0
30. Rest Areas, Welcome Centers (Per Person)..... (Per Person, With Showers).....	.0125 .025
31. Rest Homes (Per Bed)..... (Per Bed, With Laundry).....	.25 .375
32. Restaurants Fast Food Type (Not 24 Hrs.) (Per Seat)..... 24 Hour Restaurant (Per Seat)..... Drive-In (Per Car Served)..... Vending Machine, Walk-up Deli (Per Person).....	.10 .175 .10 .10
33. Schools, Day Care (Per Person)..... (Per Person With Cafeteria)..... (Per Person With Cafeteria, Gym, Showers).....	.025 .0375 .05
34. Service Stations Each Car Served (Per Day)..... (Per Employee)..... (Per Car Served)..... Car Wash (Per Car Washed).....	.025 .025 .025 .1875
35. Shopping Centers, Large Department Stores, Malls (Per 1,000 sq. ft. Space - No Restaurant).....	.5
36. Stadiums (Per Seat - No Restaurant).....	.0125
37. Swimming Pools (Per Person - With Sanitary Facilities and Showers).	.025
38. Theatres Drive in (Per Stall)..... Indoor (Per Seat).....	.0125 .0125

III. GENERAL PROVISIONS

1. BILLING CYCLE

Recurring charges will be billed monthly in arrears. Nonrecurring charges may be billed and collected in advance of service being provided.

2. LATE PAYMENT CHARGES

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half (1 1/2%) percent each month (or any part of a month) said balance remains unpaid.

3. TAX MULTIPLIER

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers or others and properly classified as a contribution or advance in aid of construction in accordance with the uniform system of accounts. Included in this classification are tap fees.

4. TOXIC AND PRETREATMENT EFFLUENT GUIDELINES

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §§ 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §§ 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

5. LANDLORD/TENANT RELATIONSHIPS

In the case of a landlord/tenant relationship where the tenant is the customer, the Utility may require the landlord to execute an agreement wherein such landlord agrees to be responsible for all charges billed to that premises in accordance with the approved tariffs and the Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103-535.1 if the account is delinquent or may discontinue service at the time the premises are vacated, and the Utility shall not be required to furnish service thereafter to the premises until the landlord has executed the agreement, paid any outstanding service charges, and paid any reconnection charges.

6. CONSTRUCTION STANDARDS

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, and in a workmanlike manner, at a minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the water or sewer systems.

7. METER CALIBRATION CHECKS

Any customer requesting that a meter be checked for accuracy shall be charged a fee of \$25.00 for each request after the first such request each calendar year. This fee will assist the Utility in recovering the labor and administrative fees incurred in conducting such checks.